– Consultation response –

All TSOs' Proposal for Amendment of Pricing Methodology

Brussels, 27 July 2021 | Europex fully supports the EU target design for balancing energy markets, including the implementation of cross-border marginal pricing. However, during the transition to the European balancing platforms, we acknowledge the potential risks of 'exaggeratedly high' balancing prices, as described by the TSOs. The imbalance energy price should reflect the real-time value of energy based on fundamentals.

We therefore accept the potential need for maximum-minimum price limits for a well-defined and limited period until the new market design is well established. However, we highlight several aspects below, which we believe must be addressed when implementing such price limits.

Clearer conditions to phase out the limits. We recommend that the price limits automatically expire within a suitable timeframe, with the possibility to extend the period of application if justified. We note that the explanatory document states that the All TSOs report required within 18 months of the deadline for all relevant TSOs to join the platforms will only propose further amendment of the price limits if TSOs:

- consider that the current max-min prices limit BSPs to rationally calculate their bids; or
- assess that the market is mature enough to be able to deal with the risks listed.

Our first recommendation is an automatic expiration of the limits, with TSOs required to justify an extension period. However, should the current approach be maintained, we would like to see further detail on the how the TSOs will assess the outstanding level of risk, including for example what is considered to be a 'mature' market (e.g. what would be considered a critical mass of BSPs to sufficiently mitigate market power concerns).

The price limit itself (upper bound currently proposed at 15,000 EUR/MWh) should be clearly linked to the VoLL and reflecting the higher ranges of VoLL values across the EU. There should be an ability to adjust the limit in case of VoLL developments (see point below). The upper bound limit must always remain higher than the wholesale market prices (SDAC and SIDC) to ensure correct incentives to market participants (see following point on the automatic addition).

Automatic addition of 5 000 €/MWh above the intraday clearing price. It is important that the maximum balancing energy price shall be above the maximum clearing prices for DA+ID timeframes. For that reason, we support the principle of the automatic limit increase (proposed at 5 000 €/MWh higher than the harmonised maximum clearing price for single intraday coupling), including in the event that the SIDC maximum clearing price would be changed.

Mechanism to adjust the limit in case necessary and assessment of bids in proximity to or reaching the maximum limit. We understand that the TSOs do not wish to implement an automatic increase in the limit if the maximum price is hit, as they assess that fundamental market power concerns would still be present. However, there should be a mechanism by which TSOs can adjust the limit in case necessary and justified, distinct from the 18-month assessment. This should include a requirement to monitor bids reaching or close to the price limit, which could merit such an increase in the limit.

In addition, the 18-month report should include an assessment of the level of the price limit, also taking into account the development of VoLL methodologies. Furthermore, we would like to see in the amended text a requirement that TSOs assess the impact of the limits on the efficient functioning of the market and free price formation.

About

Europex is a not-for-profit association of European energy exchanges with 29 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

Contact

Europex – Association of European Energy Exchanges
Address: Rue Archimède 44, 1000 Brussels, Belgium
Phone: +32 2 512 34 10
Website: www.europex.org
Email: secretariat@europex.org
Twitter: @Europex_energy